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Current Support Brief

PIECEMEAL ATTEMPTS TO INVIGORATE THE CZECHOSLOVAK ECONOMY



CIA/RR CB 64-28

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PIECEMEAL ATTEMPTS
TO INVIGORATE THE CZECHOSLOVAK ECONOMY

Last February the Czechoslovak regime announced a package of new economic measures designed to provide a sounder foundation for renewed economic growth without increasing government expenditures. These measures, which are to take effect gradually, include (1) new bonuses for farmers and increases in farmers' pensions and housing subsidies; (2) new bonus arrangements in industry; (3) changes -- mostly reductions -- in social security benefits; and (4) increases in rents and in the prices of meals in factory canteens, medical prescriptions, school supplies, and nursery care for children. These piecemeal measures, however, do not get to the heart of Czechoslovakia's basic economic problems.

The regime hopes that these measures will induce more farmers to stay in agriculture, workers to work harder, and older workers to postpone retirement. The favorable effects on incentives are likely to be small, however, and there is a risk of considerably increased popular dissatisfaction. The resentment, especially on the part of urban workers, many of whom will suffer a decline in real income, will be all the greater in that a liberal policy of social benefits had been the most appealing aspect of an otherwise unpopular system.

1. Introduction

During the past 2 years, economic growth in Czechoslovakia has come to a halt, economic policy has become confused, and popular dissatisfaction with living conditions has grown more outspoken. Possible remedies have been proposed and discussed since mid-1962, but the growing weakness of the Novotny leadership, the fear of adverse popular reaction, the opposition of vested interests, and the lack of agreement on basic issues have prevented any strong action.

In early February of this year the regime finally decided on certain piecemeal measures, many of which had been proposed originally as long as 18 months ago. These measures, which are to go into effect gradually, still do not get to the heart of Czechoslovakia's economic problems. They do not deal with such basic questions as the scope and method of central planning and administration of the economy, nor are the measures much concerned with the concrete problems of industrial structure. A lively debate on such questions still is going on in the official press, where many economists are even advocating a decentralized system of economic control similar to that of Yugoslavia. The

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regime has announced that a few obsolete plants would be closed down this year and some 15,000 workers transferred to other industrial jobs; however, a comprehensive program for industry will not be available for the next year or two, or until the long-term plan to 1970 is elaborated. The new measures are designed mainly to stimulate the incentives of workers and farmers without increasing government expenditures -- a limitation imposed by the fact that the national income is expected to increase only 1.4 percent in 1964.

2. Increased Incentives for Farmers

The stagnation of agricultural production, which was partly a result of the flight of labor from agriculture since 1956, has forced the Czechoslovak regime to do something about farmers' incentives. Now that agriculture is almost entirely socialized (about two-thirds of agricultural land is in collective farms, and another 24 percent is owned by the state), farm incomes are too low and other benefits are too limited to keep young people on the farms or to recruit competent agricultural labor from outside. In the second half of 1963 the regime began to face up to this basic problem by desisting from actions that had been weakening farmers' incentives. For example, the restrictions on home slaughter of livestock were eased, and the ban on free market sales was partly lifted.

The recent measures involve, in addition, some positive incentives. Social security benefits for collective farmers and agricultural workers are to be increased in 1964, although probably not for all farmers and not to the level of nonagricultural workers. To qualify for these benefits, the farmer no longer will have to give up his private plot. More favorable terms will be given to farmers than to nonagricultural workers for building cooperative apartments and houses, as shown below:

<u>Source of Financing</u>	<u>Apartments (Percent of Total Cost)</u>	
	<u>Urban Areas</u>	<u>Collective Farms</u>
Contribution by the state	30	30
Membership shares	40	25
Thirty-year credit	30 (at 3 percent interest)	45 (at 1 percent interest)

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The state will contribute more than 30 percent in some cases, and the farmer's membership share will be covered by the collective in an interest-free loan that will be written off entirely if the farmer continues to work for that collective for 10 years. The new housing benefits probably will be provided mainly to the young and skilled farmers that the regime is trying to keep in or recruit for agriculture. Substantial bonuses have been promised to workers on state farms for increasing production of crops and to collective farmers for increasing production of various items, particularly milk. The basic wages of state agricultural workers with special skills (such as tractor drivers and repair workers) are to be increased. Additional measures will be taken later to increase farmers' incentives, including a rise in procurement prices for agricultural products.

3. Changes in Wages and Bonuses

Basic wages in 1964 are to remain at the level of 1963, except for some construction workers and some foremen and technical personnel in transportation and industry. A variety of new bonuses will be introduced, however, to stimulate the introduction of new technology, encourage exports, reduce the consumption of imported materials, reduce the administrative staff, and accelerate the completion of investments. Moreover, new financial penalties will be imposed on managers, and under some conditions on workers, for holding surplus stocks, squandering materials, or producing goods for which there is no market. The additional bonuses, however, represent only very small shares of the total wage bill, and it remains to be seen whether they can be administered with any more effect than in the past.

4. Changes in Social Insurance for the Nonagricultural Population

The increased benefits for farmers and the new bonuses for workers apparently will be financed mainly by reducing pensions for the nonagricultural population. The changes in pensions, some of which are not scheduled to go into effect until next summer and others not until 1965, are complex, and information on them is incomplete, but it seems clear that, apart from farmers, many more people will lose than will gain.

The change affecting the most people (more than 900,000) is the elimination of partial pensions (one-third of the full pension) for people who continue working for the first 5 years after reaching the legal retirement age (60 for most men and 55 for women and for men in hazardous

occupations, such as mining and aviation). In addition, the maximum pension to be paid to those who continue working more than 5 years after reaching the legal retirement age is to be reduced. These cuts will save the government a good deal of money but probably will not cause many of the pensioners who are working currently to leave the labor force, because they would have to take too large a cut in income (pensions being only 50 to 60 percent of wages at retirement). The USSR, by contrast, recently introduced partial pensions for those who continue working after retirement age as an inducement to later retirement.

Other proposed changes in the Czechoslovak pension system, however, are inducements to later retirement. The length of employment to qualify for a full pension will be raised from 20 to 25 years, a measure that should keep some women in the labor force longer, although very few men are likely to be affected, because men rarely work less than 25 years. Effective on 1 July 1965, at least 150,000 people who are eligible for minimum pensions may double their pensions by working 5 years beyond retirement age. There also will be an increase of 20 percent in the minimum pension, presumably in the interest of a more equitable distribution of income. These added benefits, however, will be financed by a progressive tax on pensions.

5. Rents and Other Prices

The state will reduce its expenditures on subsidies for housing. In Czechoslovakia, rents have been low in relation to incomes (about 2 percent of the income of a typical worker's family) and have been insufficient to cover even the cost of current maintenance of dwellings, the difference being covered through state subsidies. One-fourth of Czechoslovak families -- about 1 million, consisting mainly of workers' families -- have lived in state or factory-controlled housing. With some exceptions, apparently substantial increase in rents for such housing will be made in October, although no over-all figures have been given. One example notes an increase in rent of 46 percent for a family of five with two children. In addition to the increase in basic rents, an extra charge of 1 percent will be levied for each square meter of living space in excess of standards established on the basis of size of family, and in certain cases people occupying large apartments may be forced to move to smaller quarters. On the other hand, there will be discounts in rents ranging from 5 to 40 percent depending on the number of children in a family.

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The state also will reduce or eliminate subsidies for various goods and social welfare services. The result will be to increase the prices of meals in factory canteens, medical prescriptions, school supplies, and nursery care for children. Price changes -- both increases and reductions -- for a variety of other consumer goods also have been announced.

6. Effects of the New Measures

The new measures probably will have a healthy, if not very substantial, effect on the Czechoslovak economy in the long-run. Although they appear insufficient to stabilize the agricultural labor force or to stimulate the farmers to greater efforts, the added incentives may slow the outflow of young and skilled people from agriculture. The revision of bonuses in industry, although minor, probably is in the right direction. The cuts in social insurance and the decline in state subsidies for housing and other services will make the real income of workers depend more on wages and therefore may induce workers to work harder. The rise in rents, in addition, should permit better maintenance of some houses. The regime probably decided to make these changes this year so that it could then concentrate its attention on the basic questions of economic development in the next 5-year plan.

On the other hand, the regime may be taking a considerable risk in the short term because of the widespread dissatisfaction that the measures will cause, especially among urban workers and pensioners. Living conditions on the average probably will not change in 1964 -- a planned increase of about 1.5 percent in per capita personal consumption probably being offset by a decline in government expenditures on goods and services used by the population. However, there will be significant changes in the distribution of income. It will be a considerable sacrifice for nearly 1 million working pensioners to give up an average of about 18 percent of their monthly income. About 1 million households, consisting mainly of workers' households but including some privileged Party members, will have to pay higher rents. Furthermore, increased prices for such things as meals in factory canteens and school supplies will annoy practically everyone in the cities, although the effect on real income will be very small. Farmers, people with many children, and some pensioners will be better off, but the farmers at least are likely to feel that the benefits are still inadequate.

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Finally, the regime, but cutting down its liberal program of social benefits and raising rents, is losing a big item in its propaganda. Liberal social benefits and low rents probably had been the most appealing aspect of the Communist system for the workers. Although these benefits fostered grudging acceptance of the regime by the workers, they did not encourage hard and effective work.

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The measures described in this publication (and covered by the following sources) were discussed at a plenum of the Central Committee on 20-21 January 1964, in the 1964 plan and budget, in measures of the government, and in a radio-TV address by Premier Lenart.

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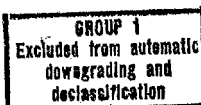
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